

**RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
HANOVER, KANSAS**

Financial Statements
With
Independent Auditors' Report
DECEMBER 31, 2018

BRUNA AUDITING SERVICES LLC
DEREK BRUNA
CERTIFIED PUBLIC ACCOUNTANT
WASHINGTON, KANSAS

**RURAL WATER DISTRICT #1
WASHINGTON COUNTY, KANSAS
HANOVER, KANSAS**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Washington County Rural Water District No. 1
Hanover, Kansas 66945

I have audited the accompanying financial statements of Washington County Rural Water District No. 1 (WCRWD No. 1) which comprise the Statement of Net Position as of and for the year ended December 31, 2018, and the related Statement of Revenues, Expenses, and Changes in Fund Net Position, and Cash Flow for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the accounting principles generally accepted in the United States of America and the *Kansas Municipal Audit Guide* (KMAAG); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statement based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of the WCRWD No. 1, as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of management's response to our inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Bruna Auditing Services LLC



Derek Bruna, CPA

Washington, Kansas

February 11, 2019

WASHINGTON COUNTY RURAL WATER DISTRICT NO. 1 MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2018

This section of the Washington County Rural Water District No. 1's annual financial report presents analysis of the District's financial performance during the fiscal year ended on December 31, 2018. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this *Management Discussion and Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. The District's financial statements are presented as one fund level financial statements because the District operates with a single fund.

Required Financial Statements

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Position includes all the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the District's creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This MD&A should be used concurrently with financial statements taken as a whole.

FINANCIAL HIGHLIGHTS AND ANALYSIS

Please refer to the attached table which shows a Condensed Statement of Net Position and Condensed Statement of Revenues, Expenses, and Changes in Fund Net Position.

Net position may serve, over time, as a useful indicator of a government's financial position. The Statement of Net Position has been prepared implementing GASB 63 and 65. Net position represents the difference between assets and liabilities. In the case of the District, the total net position as of year ended December 31, 2018 was \$1,960,045. The net position is comprised of Net Investment in Capital Assets of \$677,010, Restricted Bond Reserves of \$169,500 and Unrestricted Amounts of \$1,113,535. This represents an increase of \$82,419 from the previous year end of \$1,877,626 or 4.39%. This is due to strong operations once again by the district.

Current assets increased 5.43% to \$1,223,856. This was an increase of \$63,084. Operating revenues and expenses were relatively flat, each varying less than 1%. Accounts receivable have stayed relatively constant which shows

WASHINGTON COUNTY RURAL WATER DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

management is staying on top of billing and doing a good job of collecting. The account for alternate source of water that the district had received and yet to pay had a value of \$134,625. This number remained unchanged from last year. In the past, the District had paid for items and was waiting on the reimbursement. The district will of course spend this money on future projects, and this number fluctuates depending on the timing of payments. Current assets increased due to profitable operations.

Current liabilities were up 10% with all minor increases in various accounts.

Unrestricted amounts of net position were \$1,113,535 for the year ended. It is good to see the performance of the district being reflected in the net position. With good operations, you would expect the net position to increase. Again, the expenditures the District incurred in the past are paying off in the efficiency of the operations. Unrestricted amounts of net position represent the amount available to be used to meet the District's ongoing obligations to creditors and operations of facilities. The District has sufficient funds to meet requirements for cash outlays in the next fiscal years as well as the financial capacity to sustain operations. At the end of the current fiscal year, the District is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal years.

A large portion of the District's net position reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The District uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending. The Net Investments in Capital Assets decreased due to more depreciation expense being claimed than capital assets purchased this fiscal year. The amount invested in capital assets for the year ended were \$45,759. Depreciation amounted to \$96,669 for 2018, while it was \$92,967 for 2017. The primary acquisitions for 2018 were vehicles for \$45,647 and improvements to the land for \$3800. The District has a lot of long term assets scheduled that run their course annually. Please see the Condensed Tables as well as Table 1 in the Notes for a breakdown of the capital assets being utilized by the District. The amount would have been higher without the Alternate Source of Water account.

While the Statement of Net Position shows the change in financial position of assets, the Statements of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes.

Operating profits for the District was \$73,860 for the year ended December 31, 2018, which includes depreciation. The prior year showed \$83,849. The interest expense on the bonds is in this figure of \$53,748. The District is continuing to make its payments on schedule.

The statement of cash flows shows an increase in cash and equivalents of \$45,763. The operations of the District are the driving force behind this number.

The bond payable has been put in the financials, and the cost of issuance has also been put in as an asset to amortize over the life of the bond. The proceeds from the bond have either been spent on assets, or are in the United Bank and Trust account. The amount of unrequested funds is currently being held in an insured account, and can be requested per the District's needs. The money spent on the well fields and river crossing projects can be verified respectively on the balance sheet. There have been six payments made, and \$510,000 of principal has been paid off and currently the bond is on the books at the current portion of \$75,000 and the long-term portion showing \$1,110,000 for a total of \$1,185,000. Also, interest was accrued on the bond, and put in as an expense as a year-end adjustment. The portion payable within the upcoming fiscal year will be shown as a short-term liability and the balance will remain a long-term liability. More information regarding the issuance of the bond can be found in Note Table 2 of the notes to the financial statements.

WASHINGTON COUNTY RURAL WATER DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

CAPITAL ASSET

Capital Assets – The Water District's investment in capital assets as of December 31, 2018 amounts to \$1,939,909 (net of accumulated depreciation). If the alternate source of water had not brought the balance down it would have been \$2,074,534. This investment in capital assets includes land, buildings, improvements, equipment well fields, projects and construction in progress.

Additional information on the District's capital assets can be found in Note A and Table 1 of the notes to the financial statements of this report.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Mr. Darryl Schlabach, Washington County Rural Water District No. 1, 101 S Bern Street, Hanover, KS 66945.

WASHINGTON COUNTY RURAL WATER DISTRICT NO. 1 - HANOVER, KANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018

FINANCIAL ANALYSIS - 2018

CONDENSED STATEMENTS OF NET POSITION

	<u>FY 2018</u>	<u>FY 2017</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current/other assets	\$ 1,223,856	\$ 1,160,772	\$ 63,084	5.43%
Capital assets	<u>1,939,909</u>	<u>1,987,018</u>	<u>-47,109</u>	<u>-2.37%</u>
Total Assets	<u>3,163,765</u>	<u>3,147,790</u>	<u>15,975</u>	<u>0.51%</u>
Current/other liabilities	93,720	85,164	8,556	10.05%
Long Term liabilities	<u>1,110,000</u>	<u>1,185,000</u>	<u>-75,000</u>	<u>-6.33%</u>
Total Liabilities	<u>1,203,720</u>	<u>1,270,164</u>	<u>-66,444</u>	<u>-5.23%</u>
Net Position				
Net Invested in capital assets	677,010	727,018	-50,008	-6.88%
Restricted	169,500	169,500	0	0.00%
Unrestricted	<u>2,113,535</u>	<u>981,108</u>	<u>132,427</u>	<u>13.50%</u>
Total Net Assets	<u>\$ 1,960,045</u>	<u>\$ 1,877,626</u>	<u>\$ 82,419</u>	<u>4.39%</u>

**CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

	<u>FY 2018</u>	<u>FY 2017</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues				
Operations	\$ 651,803	\$ 656,871	\$ -5,068	-0.77%
Other	<u>12,120</u>	<u>11,360</u>	<u>760</u>	<u>6.69%</u>
Total Revenues	<u>663,923</u>	<u>668,231</u>	<u>-4,308</u>	<u>-0.64%</u>
Expenses				
Depreciation	96,669	92,967	3,702	3.98%
Operating	<u>493,394</u>	<u>491,415</u>	<u>1,979</u>	<u>0.40%</u>
Total Expenses	<u>590,063</u>	<u>584,382</u>	<u>5,681</u>	<u>0.97%</u>
Excess (deficiency) before contributions	73,860	83,849	-9,989	-11.91%
Changes in Net Position	73,860	83,849	-9,989	-11.91%
Beginning net position	<u>1,877,626</u>	<u>1,782,186</u>	<u>95,440</u>	<u>5.36%</u>
Capital Contributed, Adjust/Benefit Unit	8,559	11,591	-3,032	-26.16%
Ending net position	<u>\$ 1,960,045</u>	<u>\$ 1,877,626</u>	<u>\$ 82,419</u>	<u>4.39%</u>

WASHINGTON CO. RURAL WATER DISTRICT #1

STATEMENT OF NET POSITION

December 31, 2018

PRIMARY GOVERNMENT-BUSINESS TYPE ACTIVITIES

ASSETS	
CURRENT ASSETS	
United Bank And Trust MMDA	\$ 146,910
Bank of Palmer CD 160K	189,664
Bank of Palmer CD	59,612
Citizens State Bank	248,216
Citizens State Bank-CD	167,020
First Commerce Bank	244,225
Petty Cash	165
Accounts Receivable	7,689
Gary Holle AFLAC Rec	106
Inventories	134,373
Prepaid Expenses	1,313
Prepaid Insurance	24,563
TOTAL CURRENT ASSETS	\$ 1,223,856
CAPITAL ASSETS	
Alternate Source Water	\$ (134,625)
Equip & Water System: River Crossing	161,504
Equip & Water System: Well Field	1,221,450
Equip & Water System: Equipment & Water System	3,805,244
Equip & Water System: Land & Easements	85,517
Equip & Water System: Office & Shop Building	193,028
Equip & Water System: Office Furniture & Equipment	22,408
Equip & Water System: Vehicles	186,748
Equip & Water System: Other	202,276
Bond Issuance Cost	25,498
Accumulated Amortization Depreciation	(10,200)
Accumulated Depreciation-Equipment and Water System	(3,597,319)
Accumulated Depreciation-Office & Shop Building	(55,334)
Accumulated Depreciation- Office Equipment	(21,906)
Accumulated Depreciation-Vehicles	(144,380)
NET CAPITAL ASSETS	\$ 1,939,909
TOTAL ASSETS	\$ 3,163,765
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES	
Accounts Payable	\$ 5,030
Payroll Liabilities	(1)
Sales Tax Payable	318
Water Protection Payable	424
Bonds-Current Portion	75,000
Interest Payable	12,949
TOTAL CURRENT LIABILITIES	\$ 93,720
LONG-TERM LIABILITIES	
Bonds	\$ 1,110,000
TOTAL LONG-TERM LIABILITIES	\$ 1,110,000
TOTAL LIABILITIES	\$ 1,203,720
NET POSITION	
Invested in Capital Assets Net of Related Debt	\$ 677,010
Restricted	169,500
Unrestricted	1,113,535
TOTAL NET POSITION	\$ 1,960,045
TOTAL LIABILITIES AND NET POSITION	\$ 3,163,765

See accompanying notes to the financial statements

WASHINGTON CO. RURAL WATER DISTRICT #1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018

	December 31, 2018
OPERATING REVENUES	
Collection Fees	\$ 375
Late Penalty	7,052
Maintenance Fee	192,024
Miscellaneous	3,603
Reading Meter	100
Transfer Fees	325
Water Sales	448,324
TOTAL SALES	\$ 651,803
OPERATING EXPENSES	
Metron-Farnier, LLC-units	\$ 22,702
IDT	21,895
Auditing, Geologists & Legal	3,493
Bank Charges	(176)
Chemicals	21,415
Depreciation/Amorization	96,669
Dues	618
Equipment: Machinery Use on Repairs	880
Equipment: Insurance	4,248
Equipment: Machinery Use on New Lines	952
Equipment: Maintenance & Repairs	2,266
Equipment: Fuel	380
Equipment: Other	7,705
Insurance	25,864
Leak Reporting	140
Lease	6,050
Meeting Expense	11,490
Mileage	375
Miscellaneous Expense	738
Office Expense	8,658
Payroll Expenses	14,535
Postage	3,037
Preventative Maintenance	413
Radio	615
Repairs & Maintenance: Mowing	5,265
Repairs & Maintenance: Supplies	7,372
Repairs & Maintenance: Other	9,534
Retirement Expense	15,837
Salaries	175,097
Shop Expense	814
Tank Maintenance	3,900
Taxes: Clean Drinking Water Fee	2,008
Truck Expense: Gas	8,649
Truck Expense: Maintenance	1,821
Truck Expense: Repairs	831
Truck Expense: Taxes	133
Truck Expense: Other	3,104
Utilities: Electricity	40,179
Utilities: Propane	32
Utilities: Telephone: Darrell's Cell	1,070
Utilities: Telephone: Office	1,931
Utilities: Trash	440
Utilities: Water & Sewer	518
Water Testing	1,424
TOTAL OPERATING EXPENSES	\$ 534,921
NET ORDINARY INCOME	\$ 116,882
OTHER INCOME (EXPENSE)	
Farm	\$ 4,500
Farm Taxes & Repairs	(1,394)
Interest Expense	(53,748)
Interest Income: Citizens State Bank	3,722
Interest Income: First Commerce	485
Interest Income: Other	3,413
TOTAL OTHER INCOME (EXPENSE)	\$ (43,022)
CHANGE IN NET POSITION	\$ 73,860
NET POSITION, BEGINNING OF PERIOD	1,877,626
CAPITAL CONTRIBUTIONS, ADJUSTMENT/BENEFIT UNIT	8,559
NET POSITION, END OF PERIOD	1,960,045

See accompanying notes to the financial statements

WASHINGTON CO. RURAL WATER DISTRICT #1
 STATEMENT OF CASH FLOWS
 YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		<u>2018</u>
Receipts From Customers		\$ 649,030
Other receipts farm		4,500
Cash payments for goods and services		(445,639)
		<u>207,891</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash payments for equipment, well field, etc.		(49,559)
Cash Paid For Interest		(53,748)
Cash received miscellaneous source		0
Cash received for adjustment, benefit unit		8,559
Cash payments for retiring bond debt		<u>(75,000)</u>
		(169,748)
 NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received		<u>7,620</u>
		7,620
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		45,763
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		1,010,049
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		<u><u>\$ 1,055,812</u></u>

WASHINGTON CO. RURAL WATER DISTRICT #1
STATEMENT OF CASH FLOWS - CONTINUED
Year Ended December 31, 2018

	<u>2018</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	\$
Operating income (loss)	115,488
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	96,669
Change in assets and liabilities:	
(increase) decrease in accounts receivable	(2,879)
(increase) decrease in prepaid insurance	(5,378)
(increase) decrease in prepaid expenses	3,104
(increase) decrease in inventory	(12,168)
increase (decrease) in equity accounts	4,499
increase (decrease) in accounts payable	8,556
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ <u><u>207,891</u></u>

**RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
Hanover, Kansas**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Entity: Rural Water District No. 1, Washington County, Kansas (the District) is a water utility that provides service for domestic, agricultural, and other purposes to rural customers. The district was organized under Kansas law as a quasi-municipal corporation. The District's purpose is to acquire water and water rights, to build and acquire pipelines and other facilities, and to operate the same for the purpose of furnishing water to owners and occupants of land located within the District.

Summary of Significant Accounting Policies: Basis of Presentation and Accounting – The District's financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply applicable GASB pronouncements, including GASB Statement No. 34, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues, and expenses.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included in the Statement of Net Position. Net position (i.e. total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

Accounts Receivable and Unbilled Revenue – The District utilizes cycle billing and accrues an estimated amount of revenues for sales unbilled at the end of each reporting period. The unbilled amount plus any amounts billed to customers but not yet received by The District is recorded as accounts receivable and water sales. All accounts receivable as of December 31, 2018 are considered collectible with a balance of \$7,689.

Inventories – Inventories consist primarily of meters, pipe and line maintenance material. Inventories are stated at the lower of cost or market. Cost is determined using the average cost method. As the materials are used, they are charged to the property or capitalized appropriately. The amount of inventory on the books for 2017 is \$122,205 and \$134,373 for 2018.

Property and Equipment – The cost of additions to the District's plant, distribution system and other assets with an estimated useful life in excess of two years are capitalized. Cost includes materials, outside services and if applicable, interest on borrowed funds to finance construction. The District did not capitalize interest during the fiscal year 2018. The

**RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
Hanover, Kansas**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the non-operating section of the statement of revenues, expenses, and changes in net position. Please refer to Table 1 for breakdown of capital assets and useful lives information.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Debt Issue Costs – Costs related to the issuance of debt are amortized under the straight-line method over the life of the bonds.

Income Taxes – The District is a quasi-governmental unit, not subject to federal or state income taxes.

Capital Contributions – Transmission and distribution system assets contributed to the District are capitalized at the members' costs, which approximate fair value, and recorded as capital contributions when received.

Net Position – Net position comprise the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Invested in Capital Assets, Net of Related Debt – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
Hanover, Kansas

NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Cash and Equivalents/ Investments: Cash includes all monies in the bank and highly liquid investments with maturity dates of less than three months. The carrying value of cash approximates fair value because of the short maturities of those instruments. Investments are stated at cost and consist of certificates of deposit which have an original maturity date longer than three months. All investments are in financial institutions insured by the FDIC. Investments in excess of \$250,000 FDIC insurance are collateralized with bank instruments.

A breakdown of cash and investments:

United Bank MMDA account	\$146,910
Bank of Palmer CD	\$189,664
Bank of Palmer CD	\$59,612
Citizens State Bank	\$248,216
Citizens State Bank CD	\$167,020
First Commerce Bank	\$244,225
Petty Cash	\$165

Total \$1,055,812 carrying amount of deposits

Accounts Payable: The carrying amount of accounts payable at the end of the year was \$18,720.

Fair Value of Financial Instruments: "Disclosure about Fair Value of Financial Instruments," requires certain disclosures regarding the fair value of financial instruments. Cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, as shown in the financial statements at fair value because of the short-term maturity of these instruments, (which is also their carrying value.)

The Statement of Cash Flows was prepared with the Direct Method and a reconciliation of net income to net cash provided by operating activities has been provided.

The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The District distinguishes between operating and non-operating revenues and expenses in its Statement of Revenues, Expenses and Changes in Net Position. For this purpose, the District's operating revenues result from providing water to the benefit units on the grid, as well any fees associated with providing this. Operating expenses include the cost attributed to administration, client services, utilities, maintenance and operations and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Risk Management: The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters for which the District purchases commercial insurance. During the year ended December 31, 2018 the District did not reduce insurance coverage from levels in place during the prior year. No settlements have exceeded coverage levels in place during the past three fiscal years.

Prepaid balances are for payments made by the District in the current year to provide services occurring in the subsequent fiscal year and include but are not limited to fuel, prepaid insurance, engineering fees, etc.

**RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
Hanover, Kansas**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

Investment Income: Investment Income for the year ended December 31, 2018 was \$7,620 which was all interest on bank deposits.

Revenues/Expenses: The major categories of revenue and expense items, water sales and activities, operating expenses, administrative expenses, etc. are shown separately on the face of the Statement of Revenues, Expenses and Changes in Fund Net Position.

Bond Payable: A resolution of Rural Water District No. 1, Washington County, Kansas, approving the issuance by The Kansas Rural Water Finance Authority of \$1,695,000 aggregate principle amount of Kansas Rural Water Finance Authority Revenue Bonds, Series B, 2010, (Rural Water District No. 1, Washington County, Kansas) to provide financing for the construction and acquisition of certain water distribution system improvements of said rural water district; authorizing the execution of a promissory note, pledge of revenues agreement and ancillary financing documents between said rural water district and the Kansas Rural Water Finance Authority dates as of July 1, 2010, which contain certain covenants and provisions respecting the operation and revenues of the district's water distribution system and other matters relating thereto which will provide for the payment of such bonds. As of December 31, 2018, all \$1,695,000 had been received. Please Refer to Management Discussion and Analysis and Table 2 for more information pertaining to Bond Issuance.

GASB 40 Disclosures

Custodial Credit Risk- This is the risk that in the event of a failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are held by the counterparty. All of the District's investments are held in the name of the District. The District is not subject to custodial credit risk as the deposits are covered by depository insurance.

Credit Risk- This is risk that an investment will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The District's investment policy is that none of its total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities.

Interest Rate Risk- As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment portfolio to short term investments. At year end, the District's deposits and investments were all invested in such accounts, and in fact are all current and liquid.

Concentration of Credit Risk- The entity is not subject to this risk even though all of its deposits are with the same banking institution because they are guaranteed through FDIC insurance. The balance of deposits in the bank are below the federal limit of \$250,000.

Bond Reserve Account: Kansas Department of Health and Environment requires a 10% reserve account of the issuance of the bond. That amount is \$169,500 and is shown as a restricted asset.

Use of Restricted/Unrestricted Net Assets: When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy is to apply restricted assets first.

Net revenues of the District have been pledged as security for the debt, and the District is required to have net revenues, as defined in the debt agreements, in each year of at least 125% of that year's principal and interest payment requirements. This requirement was not met for the year ended December 31, 2018.

**RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
Hanover, Kansas**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2018**

Defined Benefit Pension Plan

The District participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing, multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates for KPERS 1, KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1% contribution rate with a 0% moratorium from the period of January 1, 2017 through September 30, 2017 for the Death and Disability Program) and the statutory contribution rate was 8.46% for the fiscal year ended December 31, 2017. Contributions to the pension plan from (non-school municipality) were \$14,328 for the year ended December 31, 2017.

Net Pension Liability

At December 31, 2017, the (non-school municipality)'s proportionate share of the collective net pension liability reported by KPERS was \$132,679. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017. The (non-school municipality)'s proportion of the net pension liability was based on the ratio of the (non-school municipality)'s contributions to KPERS, relative to the total employer and nonemployer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in this financial statement. The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at www.kpers.org or can be obtained as described above.

Litigation: There is no pending litigation noted for the District as of the date the audit report was issued.

Subsequent Events: The financial statements considered subsequent events through February 11, 2019 the date the financial statements were available to be issued as management reviewed events through aforementioned date.

Compliance With Kansas Statutes: References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the Water District. There were no apparent statutory violations during the year ended December 31, 2018.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Table 1

ASSET

Buildings

Water Transmission/Distribution System

Equipment

Vehicles

LIFE

33-50 Years

33-40 Years

6-10 Years

5 Years

2017 YEAR END

Equipment & Water Systems/Well Field/River Crossing

Land & Easements

Office & Shop Building

Office Furniture & Equipment

Vehicles

Bond Issuance Cost

TOTAL

	COST	ACCUMULATED DEPRECIATION	COST LESS DEPRECIATION
Equipment & Water Systems/Well Field/River Crossing	5,390,361	3,513,539	1,876,822
Land & Easements	81,717	0	81,717
Office & Shop Building	193,028	51,474	141,554
Office Furniture & Equipment	22,408	21,442	966
Vehicles	141,101	137,090	4,011
Bond Issuance Cost	25,498	8,925	16,573
TOTAL	\$ 5,854,113	\$ 3,732,470	\$ 2,121,643

2018 YEAR END

Equipment & Water Systems/Well Field/River Crossing

Land & Easements

Office & Shop Building

Office Furniture & Equipment

Vehicles

Bond Issuance Cost

TOTAL

	COST	ACCUMULATED DEPRECIATION	COST LESS DEPRECIATION
Equipment & Water Systems/Well Field/River Crossing	5,390,473	3,597,318	1,793,155
Land & Easements	85,517	0	85,517
Office & Shop Building	193,028	55,334	137,694
Office Furniture & Equipment	22,408	21,906	502
Vehicles	186,748	144,380	42,368
Bond Issuance Cost	25,498	10,200	15,298
TOTAL	\$ 5,903,672	\$ 3,829,138	\$ 2,074,534

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

Table 2

STATEMENT OF CHANGES IN LONG - TERM DEBT

For the Year Ended December 31, 2018

Issue	Interest Rate	Amount of Issue	Date of Final Maturity	Balance Beginning of Year	Additions	Reductions/ Payments	Net Change	Balance End of Year	Interest Paid
Revenue Bond B Series 2010	1.0-4.6%	\$ 1,695,000	10/1/2030	\$ 1,260,000	\$ 0	-\$75,000	-\$75,000	\$ 1,185,000	\$ 53,748
<u>Principle Payments Made</u>									
	2011	\$40,000							
	2012	\$60,000							
	2013	\$65,000							
	2014	\$65,000							
	2015	\$65,000							
	2016	\$70,000							
	2017	\$70,000							
	2018	\$75,000							
Total		\$510,000							